City of Detroit

CITY COUNCIL

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TO: COUNCILMEMBERS

FROM: Irvin Corley, Jr., Director ICJ.
Anne Marie Langan, Deputy Director AML

DATE: March 30, 2007

RE: Revised Assumptions on the Fiscal Impact to the City due to Non-Resident Employees

Councilmember Watson asked our office to determine the fiscal impact to the city due to employees moving out of the city since the residency law was changed in 2000.

In early March our office submitted a report that revisited the economic factors that the Anderson Economic Group had examined in a study entitled "Economic and Financial Impact Assessment of Changed in Residency Requirements in the City of Detroit, Michigan". This study was commissioned by Mayor Archer in 1999 during negotiations and lobbying with the legislature prior to the passage of P.A. 212 of 1999 that restricted city residency rules.

The Anderson study found that a change in the residency law would result in a loss of tax revenue to the City of Detroit. The study focused on income tax, property tax and utility user tax. They felt that the annual loss to the city would be $21 million annually. The majority of that amount, $16 million, was due to lost property taxes.

Using the same three major revenues along with the actual number of non-resident employees as of June 2005, our office determined the annual loss to the city to be $7.059 million, but after applying the same multiplier effect as the study did of 1.25; the total loss calculation was closer to $8.82 million per year. We have been unable to conclude a similar dollar loss in property taxes.

Councilmember Watson asked this office to analyze the fiscal impact beyond the three factors used in the Anderson Economic Group report. The factors and assumptions added to the analysis were: 1) the income tax effect of a second person in the household that generated income – the assumption is that 80% of the move-outs would have second income; 2) the local retail loss because the per capita spending by a Detroiter in Detroit would be lower – the assumption is that 75% of the $3,269 that is spent in Detroit would no longer be spent in Detroit – some money would be still be spent in Detroit because city employees would still spend 40% or more of their week in the city; 3) the loss of per pupil funding to the Detroit Public School System – the assumption is 60% of the .77 of the household that left the city would create the number of children that left the Detroit System. The remaining 40% are assumed to have already been in a charter or private school.

Adding these three new assumptions, the annual lost revenue due to city employees moving out is $43.778 million. After applying multiplier effect of 1.25, which is considered conservative the annual figure is $54.72 million.

$11.87 million of these dollars are directly lost by the school system. While $22.6 million in lost retail sales seems significant, it must be considered in the context that total retail sales were $3.1 billion; so the $22.6 million represents less than 1 % (.007) of a loss.

We have asked the Administration for additional and updated information for further analysis and they are willing to assist us, but the information is not easily generated. When we receive the information and if it changes our numbers, we will inform Council.

cc: Council Divisions
Roger Short, Finance Director
Kandia Milton, Mayor's Office

Update on Fiscal Impact to the City of Detroit Due to Non-Resident Employees

As of 6/30/2005 Citywide percentage of nonresident employees	26.46%			
Income Tax Impact Analysis:				
Municipal income tax rate budgeted in 2007: 2.5% for residents and 1.25% for non-residents				
Estimate of municipal income tax revenue if all employees were residents				
FY 2007 All Citywide salary and wage budget - $676 million @2.5% =	$ 16.90 M			
FY 2007 Resident Employee salary budget - 9,277 employees				
Calculation: $497.5M x 2.5% =	$ 12.40 M			
FY 2007 Non-Resident Employee salary budget - 3,337 employees				
Calculation: $178.5M x 1.25% =	$ 2.20 M			
Est. of inc. tax rev. with mix of residents and non-resident employees	$ 14.60 M			
		Lost Revenue	$	2.30 M
Assume 80% of Non-Resident Employees have second income in				
household: 2,670 x $45,000 = $120 M x 2.5%	$ 3.00 M			
Assume 50% have jobs in city and will pay non-res. Inc. tax: $60M x 1.25%	$ 0.75 M			
		Lost Revenue	$	2.25 M
Property Tax Impact Analysis:				
Assume Average Taxable Values for homesteads $ 35,000				
Assume 75% of all active employees own home				
75% of 12,614 actives= 9,460 less 26.5% FTEs who become non-residents=2,507				
Calculation: $35,000 avg TV x 35.9706 mills x 2,507 =		Lost Revenue	$	3.156 M
Solid Waste Fee:				
3,337 employees who move household out of city				
3,337 x $300 =		Lost Revenue	$	1.001 M
Utility User's Tax Impact Analysis:				
Assume $300/month for either gas or electric $ 3,600				
Calculation: $3,600 x 5% x 3,337 households		Lost Revenue	$	0.601 M
Detroit Local Retail Loss:				
Per capita spending in city is estimated at $3,269 (1997 Fedstats)- Assume 75% is now spent outside the city: $3,269 x 9,243 x 75% =		Lost Revenue	$	22.600 M
Education Dollars from State School Fund:				
Assume 60% of children leave public school system				
Calculation: (.77 x 3,337)60% x $7,700 =		Lost Revenue	$	11.870 M
Lost Revenue to the City's Budget plus Dollars no longer part of the City's economy			**$**	**43.778 M**
Multiplier effect of 1.25			**$**	**54.72 M**
Number of city employees who have moved out of city				**3,337**
Household size factor (2000 Fedstats)				**2.77**
Population decrease due to non-residency				**9,243**
Multiplier effect of 1.25				**11,554**

Total Population loss in Detroit as estimated by SEMCOG 2000-2006	**82,500**
Total Occupied housing unit loss in Detroit as estimated by SEMCOG 2000-2006	**30,038**
Total Housing units lost in Detroit as estimated by SEMCOG 2000-2006	**13,222**